



Town of **Apple Valley** CALIFORNIA
A Better Way of Life

Town of Apple Valley Neighborhood Stabilization Program

Lender's Workshop
NSP/DAP
revised
September 14, 2010



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Housekeeping

- Please power down all electronic devices
- Restroom location
- Drinking fountain
- Sign-in sheet



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Lender Packet

- PowerPoint handout
- Lender application
- Lender participation agreement w/ cover letter
- Target area map
- Homebuyer education training information
- HUD front and back ratio excerpt
- NSP/DAP guidelines and forms available on Town's website @ www.applevalley.org
- Click on [Departments & Services](#) » [Economic & Community Development](#) » [Economic Development and Housing](#) » [Housing](#)



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NSP/DAP Program Overview

- The Housing and Economic Recovery Act of 2008 appropriated \$3.92 billion for emergency assistance for the redevelopment of **abandoned and foreclosed homes**. *Short sales are not eligible.*
- The Town of Apple Valley's allocation is \$3,064,836 and **\$1,250,000 is allocated for NSP/DAP.**



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NSP/DAP Program Overview

- Our HUD agreement was executed on **February 27, 2009.**
- 18 months to expend funding- August 2010.



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NSP/DAP Program Overview

- Property must be **foreclosed** or abandoned & located in the **designated target area** (see map in NSP-DAP Procedures Manual, Appendix C)
- No ownership interest in last three years
- Buyer must not currently own a home
- **1% purchase discount from current market value** – realtor verification provided in Realtor's Certification packet; 1% discount must be supported by formal appraisal, if not, loan may not be funded.
- 60-day property valuation
- Maximum purchase price is \$362,790



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NSP/DAP Program Overview

- The NSP/DAP loan will be used with **conventional or government-fixed rate loans** and is subordinate to the first mortgage loan.
- Lenders are expected to process loan using standard procedures with adjustments made to conform to NSP/DAP guidelines.



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NSP/DAP Program Overview

- Buyer must accept **highest loan to value ratio first mortgage** amount for which they qualify. NSP/DAP assistance will provide the difference in sales price/ closing costs and the first mortgage.
- See HUD 4155.1 Mortgage Credit Analysis and Mortgagee Letter regarding front and back ratios.
- Homebuyer Education: All homebuyers are required to attend an **eight-hour homebuyer education** workshop. Town staff will coordinate scheduling with Inland Fair Housing & Mediation Board.



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NSP/DAP Program Overview

**Town Of Apple Valley
NSP Allocation
\$3,064,836**

**Allotted for NSP/DAP
\$1,250,000**

Funds for 50%AMI or less \$766,209

Balance for up to 120% AMI \$483,791



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Reservation Letter Requirements

- **Provide income eligibility verifications up front:**
 - 6 months bank statements for all checking accounts, one month for all savings accounts
 - Town must consider all deposits and apparent income
 - 3 years federal tax returns and 4506T transcripts
 - All income and assets considered, see NSP/DAP Form 204
 - Employment verification for anticipated earnings



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Reservation Letter Requirements

- Conditional reservation letter may be issued once sufficient documentation has been provided to determine income eligibility.
- Use NSP/DAP Form 201 to provide initial contact information



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NSP/DAP Loan Terms

- Assistance is a 0% deferred payment loan concurrent with the first mortgage.
- Term of Town Loan is 45 years, Town's share of appreciation is reduced to zero at the end of the 8th year, Town loan is forgiven at end of 45 years.
- **Share of Equity- recapture of equity investment and share of appreciation**
- The loan is secured by a deed of trust, and loan agreement and affordability covenant.



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NSP/DAP Loan Terms

Escrow Overages/Refunds

- 1% minimum **Owner Contribution** required or **50% of required down payment, whichever is greater.**
- **Closing Costs:** The buyers minimum required contribution must be maintained. **Buyer's minimum contribution** is 1% of sales price or **50% of required down payment, whichever is greater.** Any buyer contribution overage at close of escrow in excess of minimum required contribution may be returned to buyer. Balance of overage funds must be returned to the Town.



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NSP/DAP Loan Terms

Affordability Covenants

- Forty-five (45) year affordability period from date escrow closes.
- Owner must continuously **occupy property** as principal residence
- Town reserves right of first refusal.



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NSP/DAP Loan Terms

Affordability Covenants (cont.)

- If sold or payoff triggered by other event, Town will recapture equity investment and share in appreciation.
- Cannot rent or lease property, **must be primary residence.**
- Sale, refinance or any transfer of property requires homeowner to notify Town by certified mail. The refinance of a NSP/DAP loan will be at the sole discretion of the Town.



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Recapture Covenants - benefit offsets

- NSP/DAP will allow homebuyer to purchase more home at affordable monthly payment.
- Savings from subsidized payment can be invested as income increases.
- Town assistance can help with up to 50% of required down plus loan gap and buyers closing costs.



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NSP/DAP Loan Terms

Upon notification of intent to resale, Town reserves the right to inspect the property and determine if housing code violations exist. Current owner will be required to correct housing code violations prior to sale, or estimated costs for repairs will be deducted from proceeds of the sale.



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Break



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Shared Equity

- The Town of Apple Valley will receive a percentage share of the appreciation gain on the sale in addition to the original amount of the outstanding loan.
- The maximum percentage of the net appreciation due the Town will be equal to the portion of the value of the residence financed by the Town.



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Shared Equity

Example of Shared Equity percentage calculation:

The sales price of home is \$150,000, first mortgage is \$100,000. TOAV loan is \$50,000, plus buyers closing costs paid by TOAV is \$11,000.

TOAV loan (\$50,000) + closing costs paid by TOAV (\$11,000)
= \$61,000

$\$61,000 / \text{Sales Price } (\$150,000) = 40.67\%$ Share of
Appreciation



Shared Equity

Town of Apple Valley Share of Appreciation reduction over affordability period based on figures from above example

The Town will decrease its share of appreciation by 50% after year 2. The Town will decrease its share of appreciation by 66% after year 5, and decrease it's share by 100% after year 8.

Town of Apple Valley Share of Appreciation	Year 0 through 2	Year 3 through 4	Year 5 through 8	Year 9 through 45
	0% reduction	50% reduction	66% reduction	100% reduction
	40.67% X 0%	40.67% x 50%	40.67% x 66%	Loan Forgiven
	40.67%	20.34%	13.83%	0%



• **At Time of Resale** Shared Equity and Repayment

	≥0 to 2 Years	≥3 to 4 years Years	≥5 to 7 Years	≥ 8 to 45 Years
Current Sales Price	\$200,000	\$200,000	\$200,000	\$200,000
Original Sales Price	\$150,000	\$150,000	\$150,000	\$150,000
Gross Appreciation	\$50,000	\$50,000	\$50,000	\$50,000
(Deduct) Market Value of Capital Improvements	(\$5,000)	(\$5,000)	(\$5,000)	(\$5,000)
Net Appreciation	\$45,000	\$45,000	\$45,000	\$45,000
TOAV Share of Appreciation=	\$45,000 X .4067X 100%= \$18,301.50	\$45,000 X 40.67% X 50%= \$9,153	\$45,000 X 40.67% X 34%= \$6222.51	\$45,000 X .0%= \$0
TOAV loan amount	\$61,000	\$61,000	\$61,000	\$61,000
Payoff to TOAV	\$79,301.50	\$70,153	\$67,223	\$61,000



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Eligibility and Income

- Section 8 Income Limits- income eligibility
- Establish AMI- Area Median Income for San Bernardino County
- Housing expense (PITI) cannot exceed 30% of gross income (HUD).
- Determine 1st mortgage payment- maximum at 30% monthly gross income
- Determine NSP/DAP assistance



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Assistance is available to assist households up to 120% of San Bernardino County Area Median Income.

San Bernardino County								NSP/DAP Level of Assistance
50%, 80%, 120% Area Median Income 2009								
			50%					
<u>1 person HH</u>	<u>2 person HH</u>	<u>3 person HH</u>	<u>4 person HH</u>	<u>5 person HH</u>	<u>6 person HH</u>	<u>7 person HH</u>	<u>8 person HH</u>	
22750	26000	29250	32500	35100	37700	40300	42900	60%
			80%					
36400	41600	46800	52000	56200	60350	64500	68650	45%
			120%					
54600	62400	70200	78000	84300	90524	96750	102974	30%



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Eligibility and Income

- The maximum NSP/DAP assistance provided by the Town of Apple valley will be determined on a tiered basis as follows:
- Income \leq 50% AMI :
 - maximum assistance = 60% of (sales price + closing costs)



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Eligibility and Income

- Income $> 50\%$ - $\leq 80\%$ AMI :
 - maximum assistance = 45% of (sales price + closing costs)
- Income $> 80\%$ $\leq 120\%$ AMI :
 - maximum assistance = 30% of (sales price + closing costs)



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Eligibility and Income

- Example:
- Buyers qualifies for \$80,000 first mortgage
- TOAV maximum assistance determined to be 45%; buyers income less than 80% of AMI.
- First Mortgage, \$80,000 = 55% , (100% - 45%)
 $80,000 / .55 = \$145,455$ total assistance
 $145,455 - 80,000 = 65,455$ TOAV total assistance for loan gap,
50% of required down payment, and buyers closing costs.



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Eligibility and Income

- HUD's definition of affordability is for a household to pay no more than 30 percent of its annual income on housing- (PITI).
- Calculating Income – HUD's Method
 - HUD calculates income differently than most lenders. The income of all household members over the age of 18 is included in the determination of income. HUD regulations take a snapshot of the household's current circumstances to project anticipated income.



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Eligibility and Income

- Income Inclusions/Exclusions-Use NSP/DAP 204 to determine income eligibility
 - Conventional lender- substantiate sufficient income to qualify for loan.
 - NSP/DAP- verify that total household income does not exceed maximum allowed in relation to Area Median Income (AMI).
 - Assets over \$5,000 included in income calculation, excluding necessary personal property (cars, furniture, clothing).



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Eligibility and Income

- Include:
 - + Income received by all household members over the age of 18.
 - + Actual interest earned from cash, dividend and investment accounts.
 - + Interest calculated at 2% passbook rate for real and personal property (except necessary personal property) with total value over \$5,000.



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Eligibility and Income

Example:

- Household of 4: applicant, co-applicant, two children- 18 & 15
- Applicant currently earns \$7.50/hour, verified increase to \$8.25/hour eight weeks from date of assistance.

Estimated earnings:

- $\$7.50/\text{hour} \times 40 \text{ hours/week} \times 8 \text{ weeks} = \$2,400$
- $\$8.25/\text{hour} \times 40 \text{ hours/week} \times 44 \text{ weeks} = \$14,520$
- $\$2,400 + \$14,250 = \$16,920$ annual income
- $\$16,920 / 12 = \$1,410 / \text{mo}$



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Eligibility and Income

- Co-applicant earns \$2,000/ month for 10 months per year as an education assistant.
- $2,000 \times 10 = \$20,000 / 12 = \$1,667$ per month



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Eligibility and Income

- Household member age **18 or older, full time student** working part time 25 hours/week at \$8/hour
- $\$8 \times 25 = \$200 \times 52 = \$10,400 / 12 = \866.67 per month
- Full time student- consider **only first \$480 per month** as income, over \$480 is excluded from income (need documentation verifying student status)
- $\$480 \times 12 = \$5,760 / \text{year}$



Eligibility and Income

- Assets
- Certificate of Deposit
 - \$10,000 @ 3.5 % = \$350 / 12 = \$29.17 / month
- \$5,000 average balance in non-interest bearing checking account
 - \$5,000 x 2% = \$100 / 12 = \$8.33 / month
 - Total asset income \$450 / yr \$37.50/ month



Eligibility and Income

- **NSP/DAP Household Income Calculation**

Annual

\$16,920

\$20,000

\$5,760

\$450

Monthly

\$1,410.00

\$1,666.67

\$480.00

\$37.50

- \$43,130/yr

\$3,594.17 / mo

- \$43,130, household of four falls in 51% to 80% of AMI group

- Eligible for 45% (sales price + closing costs)
maximum assistance



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Eligibility and Income

- Detailed information available:
- NSP/DAP 204 Income and Asset Calculation Worksheet
 - determine what should be included in income calculation



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NSP/DAP Program Summary

- NSP/DAP April 1, 2009
- 18 months to expend funding
- HUD requires 1% purchase discount on purchase of foreclosures
- Equity and appreciation sharing
- Lender will determine buyer eligibility for NSP/DAP.
- Formal property valuation within 60 days of accepted offer
- 8-hour homebuyer education required



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NSP/DAP Program Summary

- NSP/DAP assists up to 120% of AMI
- Level of assistance (30%, 45%, 60%) determined by category of income level (120%, 80%, 50%) of AMI.
- Household income determined by income and assets of all household members over 18.
- Income calculation differs for 1st and income qualifying 2nd
- HUD top (front) ratio is 31%- unless supported by compensating factors and documentation.
- Lender will execute agreement with Town and designate responsible party to review applications prior to submission by loan officers.
- NSP-DAP eligibility area targets six census tracts.



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- Lender Application- please complete before leaving- the Town will begin qualifying process
- Questions and Answers



Example: Assistance Determination

\$3,594.17 / mo qualifying monthly income X **28%** front end ratio

(housing expense to monthly income) = \$1,006.37

\$1,006.37 / .006321 (6.5%, 30 yr) = **\$159,210.56**

159,210.56 x .0164/12= \$217.59 (T+I)

\$1,006.37 – \$217.59 (taxes and ins) = \$788.78 qualifying payment

\$788.78 / .006321 (6.0%, 30 yr)= **\$124,787.21 first loan max**

\$124,787.21 / .55 = 226,885.83 max sale price + closing costs

1st loan = \$124,787.21

(2nd + closing costs) maximum =

\$226,885.33 – \$124,787.21 =

\$102,098.12 = TOAV assistance (loan)

Buyer closing costs 6% x **\$226,885.33 = \$13,613.12**

2nd loan

\$88,485.00

\$102,098.12 / \$226,885.33= 45% Maximum assistance allowed for income group



Example: Assistance Determination

- \$226,885.33 less \$13,613.12 (buyers closing cost paid by TOAV) = **\$213,272.21**
 - » Deduct TOAV second **\$88,485**
 - » First **\$124,787.21**
- **Monthly qualifying payment for \$124,787.21**
 - 788.78 P+I
 - 222.16 Prop tax= $213,272.21 \times .0125/12$
 - 69.31 Prop ins= $213,272.21 \times .0039/12$
 - **\$1080.25 / 3594.17 = 30%** top ratio